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We must better observe ‘rule of law’

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In the midst of gay weddings, the Ebola outbreak, ISIS, and the looming November general election, a new report on economic freedom was released last week. The study shows the United States ranked No. 12 among 152 countries in the world. Conducted by the Cato Institute and the Fraser Institute from Canada, the study has been published annually since 1996. As recently as 2000, the U.S. had been ranked No. 2 in the world but in recent years, the U.S. ranking has been steadily declining.

The index measures five factors: (1) Size of government; (2) Legal structure and security of property rights; (3) Access to sound money; (4) Freedom to trade internationally and; (5) Regulation of credit, labor and business. According to the index, the 10 freest economies in the world are Hong Kong, Singapore, New Zealand, Switzerland, Mauritius, United Arab Emirates, Canada, Australia, Jordan, and Chile and Finland tied for 10th. Why is America’s ranking been sliding?

According to the researchers, there are several factors that have contributed to America’s slide, but the one overriding fundamental reason America is not doing well in the global economy: America’s legal structure and the deviation from rule of law. The reports says, “increased use of eminent domain to transfer property to powerful political interests, the ramifications of the wars on terrorism and drugs, and the violation of the property rights of bondholders in the auto-bailout case have weakened the tradition of strong adherence to the rule of law in United States.”America now ranks No. 36 in the world in rule of law.

What does the rule of law have to do with economics you may ask. In the last 20 years the rule of law has become the foundation of “development economics.” The rule of law not only provides rules for a just society but it fosters an environment for economic growth. “No other single political ideal has ever achieved global endorsement," says Brian Tamanaha, a legal scholar at St. John's University, New York.

The rule of law is so important that economists worked out the "300 percent dividend" concept: in the long run, a country's income per head rises by roughly 300 percent if it improves its governance or rule of law by one standard deviation. One standard deviation is roughly the gap between India's and Chile's rule-of-law scores.

One economic theory associated with Amartya Sen of Harvard says that if you expand people's "capabilities," they will do things that help countries grow rich. An important thing to remember is when economists discuss rule of law, they are not talking about just democracy and morality, but property rights and the efficient administration of justice. Laws provide stability in a society. Laws do not necessarily have to be moral or promote human rights to provide an environment for economic prosperity.

In the past 20 years, the expansion of government - federal, state and local - into Americans lives has been growing. There are more regulations and restrictions than ever before on both individuals and business. Banking regulations make it difficult for start-ups to get financing to start up. Regulations on existing businesses make expansion not economically practical or feasible. Capital investment is a coward and it tends to migrate to the geographic and economic area where there is the least resistance.

In recent years, emerging governments/markets throughout the world have done a better job of adhering to the rule of law than the U.S. They have respected personal property rights, decreased regulation and allowed their banking institutions to operate in a common sense, less regulatory environment.

That has led to their economic growth and our decline.

Until the American people demand a smaller and more efficient government, and recognize that liberty and freedom isn't just about gay marriage and smoking dope, we can expect to see America's ranking in economic freedom vs. the rest of the world continue to decline.